



January 29, 2009

Mr. Charles Terreni  
Chief Clerk/Administrator  
South Carolina Public Service Commission  
101 Executive Drive  
Columbia, SC 29210

RE: Docket No. 2008-251-E

Dear Mr. Terreni:

Enclosed for filing in the above-referenced docket on behalf of Progress Energy Carolinas, Inc. are the rebuttal testimonies of Laura A. Bateman and B. Mitchell Williams.

Yours very truly,

A handwritten signature in dark ink, appearing to read 'Len S. Anthony', with a large, stylized loop at the end.

Len S. Anthony  
General Counsel  
Progress Energy Carolinas, Inc.

LSA:mhm

Enclosure

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**BEFORE**  
**THE PUBLIC SERVICE COMMISSION OF**  
**SOUTH CAROLINA**  
**DOCKET NO. 2008-251-E**

IN RE: )  
Application of Carolina Power and Light )  
Company d/b/a Progress Energy Carolinas, )  
Incorporated for the Establishment of )  
Procedures for DSM/EE Programs )  
)

**CERTIFICATE OF SERVICE**

I, Len S. Anthony, hereby certify that the Rebuttal Testimonies of Laura A. Bateman and B. Mitchell Williams on behalf of Progress Energy Carolinas, Inc. have been served on all parties of record either by hand delivery, e-mail, or by depositing said copy in the United States mail, postage prepaid, addressed as follows:

Holly Rachel Smith  
Russell W. Ray, PLLC  
6212-A Old Franconia Road  
Alexandria, VA 22310  
[holly@raysmithlaw.com](mailto:holly@raysmithlaw.com)

Robert R. Smith, II  
Moore & Van Allen, PLLC  
100 North Tyron St., Suite 4700  
Charlotte, NC 28202  
[robsmith@mvalaw.com](mailto:robsmith@mvalaw.com)

Shealy Boland Reibold  
Office of Regulatory Staff  
1401 Main Street, Suite 900  
Columbia, SC 29201  
[sreibol@regstaff.sc.gov](mailto:sreibol@regstaff.sc.gov)

Thomas S. Mullikin  
Moore & Van Allen, PLLC  
100 North Tryon Street, Ste. 4700  
Charlotte, NC 28202  
[tommullikin@mvalaw.com](mailto:tommullikin@mvalaw.com)

Christopher K. DeScherer  
Southern Environmental Law Center  
P. O. Box 609  
Charleston, SC 29402  
[cdescherer@selcsc.org](mailto:cdescherer@selcsc.org)

J. Blanding Holman, IV  
Southern Environmental Law Center  
38 Broad Street, Suite 200  
Charleston, SC 29401  
[bholman@selcnc.org](mailto:bholman@selcnc.org)

Timothy Monahan  
Monahan & Moses, LLC  
13-B W. Washington Street  
Greenville, SC 29601  
[Tim.monahan@momolaw.com](mailto:Tim.monahan@momolaw.com)

This 29<sup>th</sup> day of January, 2009.



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Len S. Anthony  
General Counsel

**REBUTTAL TESTIMONY OF  
LAURA A. BATEMAN  
PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA  
DOCKET NO. 2008-251-E**

1   **Q.   PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2   A.   My name is Laura A. Bateman, 410 South Wilmington Street, Raleigh, North  
3       Carolina 27602.

4   **Q.   BY WHOM ARE YOU EMPLOYED?**

5   A.   I am employed by Progress Energy Service Company.

6   **Q.   WHAT IS YOUR POSITION WITH PROGRESS ENERGY SERVICE  
7       COMPANY?**

8   A.   My position is Manager, Progress Energy Carolinas ("PEC") Utility Regulatory  
9       Planning.

10  **Q.   PLEASE DESCRIBE YOUR EDUCATIONAL AND OCCUPATIONAL  
11       BACKGROUND.**

12  A.   I obtained a bachelor's degree from the University of Massachusetts at Amherst  
13       in 1994 and an MBA degree from the University of North Carolina at Chapel Hill  
14       in 2003. Since 2003, I have been employed at Progress Energy in a variety of  
15       roles in Risk Management, Treasury, and Regulatory Planning. I have been in  
16       my current position as Manager of PEC Utility Regulatory Planning since  
17       September 2007. In this position, I have responsibility for PEC's rate design and  
18       administration and for the Company's cost of service development.

1 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

2 A. The purpose of my testimony is to respond to the testimony of Southern  
3 Environmental Law Center, Coastal Conservation League, Natural Resources  
4 Defense Council and Southern Alliance for Clean Energy witness Hornby.

5 **Q. FUNDAMENTALLY, WHAT ARE MR. HORNBY'S ISSUES?**

6 A. Mr. Hornby basically alleges that: (1) PEC has not proved that the cost-recovery  
7 mechanism contained in the Stipulation will produce just and reasonable rates  
8 because PEC has not provided any DSM/EE costs for use in determining the  
9 level of rates to be produced by the mechanism; (2) PEC has not proved that  
10 receiving a return on PEC's DSM/EE costs and an incentive based upon net  
11 savings is reasonable; (3) PEC has not proved that the recovery of net lost  
12 revenues is the best method to address the lost sales impact of DSM/EE  
13 programs; and (4) the mechanism should include portfolio performance targets.

14 **Q. PLEASE ADDRESS THE ALLEGATION THAT THE COST-RECOVERY**  
15 **MECHANISM CONTAINED IN THE STIPULATION CANNOT BE PROVED**  
16 **JUST AND REASONABLE IN THE ABSENCE OF ACTUAL DSM/EE COSTS**  
17 **TO BE USED IN DEVELOPING THE RATES.**

18 A. The cost-recovery mechanism contained in the stipulation is appropriate for all  
19 cost-effective DSM/EE programs and will produce just and reasonable rates for  
20 the following reasons. First, the mechanism allows PEC to recover its actual  
21 DSM/EE costs. (As mentioned in Mr. Williams' testimony, in the actual cost-  
22 recovery proceeding, PEC will have to prove such costs are just and  
23 reasonable.) In addition, the mechanism provides PEC the option of deferring



1 and amortizing such costs over 10 years with a carrying cost equal to PEC's last  
2 Commission-approved overall return. This method allows PEC to only recover its  
3 just and reasonable costs, including its cost of money. It also allows the rider to  
4 be much lower in the early years than would be the case if all expenses were  
5 recovered in the year incurred. It must be remembered that the net present  
6 value of these two options is the same, but the deferral option included in the  
7 proposed mechanism spreads out the cost for recovery purposes in order to  
8 keep the rider as low as possible. There is no need to have actual DSM/EE  
9 costs in order to determine whether this portion of the mechanism is reasonable.

10 Second, the mechanism allows PEC to recover its net lost revenues  
11 resulting from its DSM/EE programs for three years. Mr. Hornby seems to  
12 support such a mechanism, although he seems to suggest there may be another  
13 method for addressing the impact of lost sales. To the extent PEC's DSM/EE  
14 programs cause its customers to reduce their consumption of electricity, the  
15 mechanism makes PEC whole by allowing it to recover its actual net lost  
16 revenues: i.e., those revenues PEC would otherwise have received to cover its  
17 fixed costs if it had not offered the DSM/EE programs. Again, actual DSM/EE  
18 program lost revenue numbers will add nothing to a determination as to whether  
19 it is just and reasonable to allow PEC to recover such lost revenues. Either it is  
20 appropriate to allow recovery of such net lost revenues or it is not.

21 Finally, the mechanism allows PEC to recover an incentive to encourage it  
22 to pursue DSM/EE resources rather than supply-side resources. The incentive is  
23 easy to calculate and understand. PEC will receive an incentive of 8% of the net

1 present value of the Utility Cost Test savings for DSM programs and 13% of the  
2 net present value of the Utility Cost Test savings for EE programs. The definition  
3 of the Utility Cost Test is set forth in the mechanism. It is a nationally recognized  
4 test, and the method for calculating it is standardized. The Settling Parties have  
5 agreed that incentives of 8% and 13% of these savings as determined by the  
6 Utility Cost Test are appropriate. Again, actual DSM/EE costs will provide no  
7 additional value in determining whether this is a reasonable incentive.

8 It must be emphasized that all three elements of the mechanism are  
9 expressly supported and justified by S.C. Code Ann. § 58-37-20, as explained in  
10 Mr. Williams direct pre-filed testimony.

11 Importantly, Mr. Hornby ignores the fact that all of the electric utility  
12 statutes regarding cost recovery in South Carolina were passed by the South  
13 Carolina General Assembly without consideration of the level of costs that would  
14 actually be recovered pursuant to such statutes. This is true for the statutes  
15 governing the establishment of base rates, the fuel clause and the new Base  
16 Load Review Act. These statutes, just like the proposed DSM/EE cost-recovery  
17 mechanism, establish cost-recovery procedures and mechanisms. The  
18 Commission then ensures that the rates produced by such procedures are just  
19 and reasonable by verifying that the costs upon which the rates are based were  
20 prudently incurred and are just and reasonable. Therefore, it is not necessary to  
21 consider the costs to be recovered through a cost-recovery procedure in order to  
22 determine whether the procedure is appropriate.

1           Finally, Mr. Hornby's allegations are proved to be false by his own client's  
2           brief filed in Commission Docket No. 2008-258-E, the Duke Energy Save-A-Watt  
3           proceeding. On page 19 of the brief of the Southern Environmental Law Center,  
4           the Coastal Conservation League, the Southern Alliance for Clean Energy and  
5           the Environmental Defense Fund, under the heading "Relief Requested," they  
6           ask the Commission to "Approve a compensation mechanism for Duke's energy  
7           efficiency gains under the Save-A-Watt programs including the following: (i)  
8           Recovery of reasonable and prudent program costs; (ii) Compensation for three  
9           years of net lost revenues; and (iii) A bonus incentive based on a percentage of  
10          shared savings of 5% for demand response and a range of 10-12% for  
11          conservation programs if savings meet or exceed targets described in paragraph  
12          A.4 above." No mention is made by Mr. Hornby's client that approval of such a  
13          methodology be conditioned upon Duke first using actual DSM/EE costs and  
14          savings numbers to determine the level of the rider. (It is impossible not to  
15          observe that the cost-recovery procedure proposed by Mr. Hornby's clients in the  
16          Duke SAW docket is remarkably similar to what the Settling Parties are  
17          proposing in this proceeding.)

18   **Q.   PLEASE ADDRESS THE ALLEGATION THAT PEC HAS NOT PROVED THAT**  
19   **IT IS REASONABLE FOR IT TO RECOVER A PERFORMANCE INCENTIVE**  
20   **AND A RETURN ON ITS DSM/EE COSTS.**

21   A.   As I explained earlier, the first element of the mechanism proposed by the  
22          Settling Parties is full recovery of all DSM/EE costs incurred. S.C. Code Ann. §  
23          58-37-20 specifically requires the Commission to allow a utility a reasonable



1 opportunity to recover its DSM/EE costs, as it provides that a utility must be  
2 allowed to recover its costs and obtain a reasonable rate of return on its  
3 investment in DSM/EE programs sufficient to make these programs at least as  
4 financially attractive as construction of new generating facilities. If PEC defers  
5 recovery of a portion of its DSM/EE costs, as provided for in the mechanism, it  
6 will incur carrying costs. The cost of money (the carrying costs) associated with  
7 PEC's unrecovered DSM/EE costs is a real cost. All PEC is allowed to recover  
8 under the proposed mechanism is its actual cost of money as approved by the  
9 Commission in its last rate case. This is not an incentive. It is merely a  
10 mechanism to provide for the recovery of costs associated with developing,  
11 implementing and managing the DSM/EE programs.

12 The second element of the mechanism is the recovery of net lost  
13 revenues. South Carolina's electric utilities' energy rates contain an element of  
14 fixed-cost recovery. Thus, when a DSM/EE program results in a reduction in  
15 energy sales to participating customers, the utility loses that contribution to fixed-  
16 cost recovery as well as the return on investment that is included in the lost  
17 kilowatt-hour sales. Utilities must be given a reasonable opportunity to recover  
18 these net lost revenues in order to recover their fixed costs. Again, S.C. Code  
19 Ann. § 58-37-20 specifically contemplates such a recovery. It provides that the  
20 Commission should establish rates and charges that ensure the net income of an  
21 electrical or gas utility after implementation of specific cost-effective energy  
22 conservation measures is at least as high as the net income would have been if  
23 the energy conservation measures had not been implemented. However, cost

1 recovery and recovery of net lost revenues do not provide a positive incentive to  
2 pursue demand-side initiatives.

3 In adopting S.C. Code Ann. § 58-37-20 the General Assembly recognized  
4 that a utility must be provided both cost recovery and incentives for its DSM/EE  
5 programs and, as mentioned earlier, a rate that makes DSM/EE programs at  
6 least as financially attractive as construction of new generating facilities. The  
7 identification, creation, development and implementation of new DSM/EE  
8 programs are time consuming. In order to incent utilities to pursue DSM/EE  
9 programs and measures aggressively, they should be provided an incentive  
10 above and beyond cost recovery and net lost revenues. Obviously, the greater  
11 the incentive, the more aggressively the utility will pursue such programs and  
12 measures. The exact level of the appropriate incentive is difficult, if not  
13 impossible, to demonstrate empirically. All that can be stated with certainty is  
14 that the incentive needs to be real and meaningful enough to cause the utility to  
15 develop new DSM/EE programs and measures to satisfy a resource need rather  
16 than a supply-side resource that does not result in lost kilowatt-hour sales and  
17 return on investment.

18 As noted in PEC's June 2008 Application, PEC initially proposed an  
19 incentive equal to 50% of the net present value of the net savings of the  
20 programs and measures being offered, as determined by the Utility Cost Test.  
21 Through negotiations and discussions, the Settling Parties agreed upon  
22 incentives of 8% for DSM programs and measures and 13% for energy efficiency  
23 programs and measures.

1           Thus, both a return on unamortized DSM/EE costs and an incentive are  
2           necessary and are provided for by the statute. A return on unamortized DSM/EE  
3           costs is essential to allowing PEC to recover its costs, and an incentive is  
4           essential to encourage PEC to aggressively pursue DSM/EE resources rather  
5           than supply-side resources in continuing to meet the company's obligation to  
6           provide reliable service to all customers.

7   **Q.   HOW DO YOU RESPOND TO THE ALLEGATION THAT THE PROGRAM**  
8   **PERFORMANCE INCENTIVES SHOULD BE TIED TO PERFORMANCE**  
9   **TARGETS?**

10   A.   This criticism is both unfounded and impractical at this time. First, the Program  
11       Performance Incentive ("PPI") contained in the Stipulation provides a strong  
12       incentive to PEC to make every program as successful as possible because the  
13       award is based upon a percentage of the savings resulting from the program as  
14       measured by the Utility Cost Test. Thus, as the program becomes more  
15       successful, the incentive award will increase. Establishing overall portfolio  
16       targets will not provide any greater incentive to offer DSM/EE programs or make  
17       such programs more successful than the incentive created by the PPI  
18       mechanism contained in the Stipulation. This principle is confirmed by SELC  
19       witness Hornby in his recommendation of an incentive tied to actual  
20       performance, which is exactly what the PPI does.

21           More importantly, however, establishing overall portfolio targets is a  
22       complex and somewhat subjective undertaking. In order to make any attempt to  
23       establish realistic targets, a DSM/EE market potential study must be performed.



1        PEC has just such a study under way. The results of the market potential study  
2        are essential to any attempt to establish realistic and achievable overall portfolio  
3        targets. Without these results, any targets are only guesses at what can  
4        reasonably be accomplished through a portfolio of DSM or EE programs.

5                But the results of a market potential study alone are still not adequate to  
6        create valid goals. Several additional factors must be known before target goals  
7        can be established with any level of precision. In addition to completing a market  
8        potential study, the utility must also gain experience with the DSM/EE program  
9        implementation process, and customer acceptance rates must be determined. If  
10       appropriate, the issue of targets can be revisited in future DSM/EE cost-recovery  
11       proceedings after these critical factors are known. That is one of the reasons  
12       that the Stipulation contemplates a re-evaluation of the PPI after three years.  
13       Witness Hornby appears to agree with this re-evaluation proposal.

14    **Q        SHOULD THE PERFORMANCE INCENTIVE AVAILABLE TO PEC BE**  
15    **CAPPED?**

16    A.        No. If the goal is to incent a utility to pursue cost-effective DSM/EE programs  
17        aggressively, logic and common sense suggest that the greater the utility's  
18        DSM/EE savings achievements, the greater the incentive. Capping the  
19        achievable incentive provides a disincentive to continue pursuing DSM/EE  
20        savings.

21    **Q.        ARE THE DECISIONS OF THE CALIFORNIA COMMISSION WITH RESPECT**  
22    **TO DSM/EE PROGRAM INCENTIVES RELEVANT OR INSTRUCTIVE TO THE**  
23    **DECISIONS OF THIS COMMISSION?**



1 A. No, for many of the same reasons set forth in PEC witness Williams' rebuttal  
2 testimony. There is no uniform or standard approach to DSM/EE program cost  
3 recovery or incentives. Each state's approach will depend on its own unique  
4 circumstances.

5 Given the high price of electricity in California, California is hardly the  
6 regulatory model that this Commission should adopt. It must be remembered  
7 that it was California that led the way to retail electric competition, an initiative  
8 that caused customer rates to sky-rocket, drove the system to the brink of  
9 blackouts, and created the need for the state of California to step in to stabilize  
10 the market.

11 **Q. PLEASE ADDRESS THE ALLEGATION THAT PEC HAS NOT PROVED THAT**  
12 **THE RECOVERY OF NET LOST REVENUES IS THE BEST METHOD TO**  
13 **ADDRESS THE LOST SALES IMPACT OF PEC'S DSM/EE PROGRAMS.**

14 A. Mr. Hornby does not indicate what other process PEC should consider in  
15 addressing the impact to lost sales resulting from its DSM/EE programs.  
16 Through the Stipulation mechanism PEC will be allowed to recover as precisely  
17 as possible the revenues it would otherwise have received to cover its fixed costs  
18 if it had not offered DSM/EE programs. Through the measurement, verification  
19 and evaluation process, the Commission can assure itself that only actual net  
20 lost revenues are being recovered. I can think of no other process that can or  
21 will better remove the disincentive to engage in DSM/EE programs.

22 **Q. PLEASE ADDRESS THE REASONABLENESS OF THE 8% AND 13%**  
23 **PERFORMANCE INCENTIVES CONTAINED IN THE STIPULATION?**

1 A. The pre-tax 8% and 13% incentive levels contained in the Stipulation are the  
2 result of arm's-length negotiations between the Settling Parties. There is no  
3 empirical methodology to precisely determine the appropriate incentive levels.  
4 To the extent someone wishes to cast them as arbitrary, they are no more  
5 arbitrary than any other level of incentives including the 12% pre-tax incentive  
6 adopted by California for EE programs. These performance incentives provide a  
7 reasonable incentive to encourage the utility to pursue new DSM/EE programs,  
8 consistent with the policy established by the General Assembly.

9 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

10 A. Yes.

**REBUTTAL TESTIMONY OF  
B. MITCHELL WILLIAMS  
PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA  
DOCKET NO. 2008-251-E**

1   **Q.   MR. WILLIAMS, PLEASE STATE YOUR FULL NAME AND BUSINESS**  
2   **ADDRESS.**

3   **A.**   My name is B. Mitchell Williams and my business address is 410 South  
4       Wilmington Street, Raleigh, North Carolina 27602.

5   **Q.   HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS PROCEEDING?**

6   **A.**   Yes, I submitted pre-filed direct testimony in this proceeding on January 8, 2009.

7   **Q.   PLEASE DESCRIBE YOUR EXPERIENCE IN DEVELOPING, MANAGING**  
8   **AND IMPLEMENTING DEMAND-SIDE MANAGEMENT AND ENERGY**  
9   **EFFICIENCY PROGRAMS AND MEASURES.**

10  **A.**   I have been engaged in demand-side management ("DSM") activities at Progress  
11       Energy Carolinas ("PEC"), formerly Carolina Power and Light Company, for  
12       almost 30 years. Beginning in 1980, I participated in the development of a  
13       comprehensive conservation and load management strategy, and programs, that  
14       helped avoid the need for significant additional generation facilities. From 1990  
15       to 1995, I managed all aspects of Carolina Power and Light Company's DSM  
16       activities including strategy, planning, budgeting, program development,  
17       implementation, tracking, evaluation (called measurement, verification and  
18       evaluation today) and regulatory approvals. For the past several years I have  
19       provided advice and assistance on PEC's DSM and energy efficiency ("EE")



activities. Over the years, I have participated in DSM-related industry committees and activities at EEI, the Southeastern Electric Exchange, NARUC and Advanced Energy (formerly Alternative Energy Corporation, an independent non-profit corporation that researches and promotes energy efficiency) as well as proceedings before this Commission and the North Carolina Utilities Commission. I currently serve on the Board of Directors of NC GreenPower and Palmetto Clean Energy. I am also a member of the Energy Advisory Committee for the South Carolina Energy Office.

**Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

A. The purpose of my rebuttal testimony is to address Southern Environmental Law Center ("SELC") Witness Henderson's recommendations regarding: how PEC should select DSM and EE programs; the mix of DSM and EE programs PEC should offer; and the establishment of DSM/EE stakeholder and advisory groups.

**Q. PLEASE EXPLAIN HOW PEC HAS AND WILL SELECT THE DSM AND EE PROGRAMS TO BE OFFERED IN SOUTH CAROLINA.**

A. In 2007, PEC announced a commitment to defer 1,000 MW of power generation requirements over the next ten years through DSM and EE programs. This commitment is part of PEC's long-term, balanced energy strategy to meet the future energy needs of its customers in the Carolinas. PEC has developed several cost-effective programs to help achieve the 1,000 MW reduction in peak demand, and associated energy savings. PEC has assembled a staff responsible solely for its DSM/EE activities, reporting to the Vice President, Efficiency and Innovative Technology. We have contacted other utilities and used



1 well known and respected consulting firms to help us identify the best programs  
2 and practices nation-wide and adapt them to the realities in the Carolinas. These  
3 DSM/EE experts are some of the same ones that helped design DSM/EE  
4 programs in some of the states held in such high regard by Mr. Henderson.

5 Contrary to Mr. Henderson's assertions, the actions and decisions of other states  
6 regarding DSM/EE cannot be and should not be applied to PEC's service  
7 territory without consideration of PEC's resource needs, rates, and customer mix.  
8 The proper mix of DSM/EE programs is driven by the resource needs of the  
9 utility, the economic and market potential for various measures, and the utilities'  
10 rates and avoided costs. In states like California, where average electric rates  
11 are 78% higher than in South Carolina, or New York with average rates more  
12 than double the rates in South Carolina (212%), and commensurately high  
13 avoided costs, customers already have a strong incentive to seek out and  
14 implement DSM and EE measures, even in the absence of utility sponsored  
15 programs. Plus, such high rates and avoided costs cause many more programs  
16 and measures to be cost effective than is the case in South Carolina, which has  
17 average rates 21% below the national average.

18 Furthermore, the utility's mix of customers must be considered. For a  
19 utility with a large portion of its load comprised of industrial customers and large  
20 commercial customers, its DSM/EE efforts will be materially different from a utility  
21 with predominately small commercial and residential load. Large commercial  
22 customers, such as Wal-Mart, and industrial customers are constantly evaluating  
23 and making investments in energy efficiency on their own in order to minimize

1 their cost of doing business. They conduct research and perform engineering  
2 evaluations to identify those improvements that are cost effective and implement  
3 them. That is why in some states, such as North Carolina, these customers are  
4 allowed to opt-out of participating in utility sponsored programs and associated  
5 rate surcharges. To force these customers to pay for the utility's programs while  
6 independently funding and self-directing their own energy efficiency  
7 improvements would be unfair. PEC is proposing to allow such an opt-out  
8 opportunity for its industrial and large commercial customers in South Carolina.  
9 While there is good reason to allow the large customers to opt-out, that provision  
10 will have an impact on the amount of energy savings directly achievable by utility-  
11 sponsored programs. PEC estimates that potential opt-out eligible customers  
12 account for approximately 49% of its South Carolina retail energy sales (kWh).  
13 The opt-out provisions are significant factors that can drastically impact any  
14 state-to-state comparisons.

15 Other reasons why the DSM and EE experiences in states like New York  
16 and California should not be perfunctorily applied to South Carolina include:  
17 differences in climate, fuel choices, demographics, customer mix, appliance  
18 saturation, housing types, and overall energy policies.

19 **Q. PLEASE DESCRIBE THE DSM/EE PROGRAMS PEC HAS DEVELOPED AND**  
20 **PLANS TO OFFER IN SOUTH CAROLINA.**

21 A. First let me explain that South Carolina law does not require a utility to procure  
22 Commission approval prior to offering a DSM/EE program or measure. Of  
23 course, while Commission approval of PEC's DSM/EE programs is not required,

1 if the Commission approves the cost recovery mechanism proposed by the  
2 Settling Parties (PEC, the Office of Regulatory Staff, Nucor Steel, and Wal-Mart),  
3 PEC will have to demonstrate its DSM/EE costs are prudent, just and  
4 reasonable, in such proceedings.

5 In North Carolina, PEC must obtain North Carolina Utilities Commission  
6 approval before offering any new DSM or EE program. As a result, PEC intends  
7 to wait until the North Carolina Utilities Commission approves a DSM/EE  
8 program before offering it in South Carolina. This is necessary and appropriate  
9 because the North Carolina Utilities Commission may revise or reject a proposed  
10 DSM/EE program. If the North Carolina Utilities Commission were to do so, and  
11 PEC has already begun offering the DSM/EE program in South Carolina, PEC  
12 could find itself offering different programs in the two states leading to a  
13 deterioration of the overall cost effectiveness.

14 In North Carolina, PEC has obtained the North Carolina Utilities  
15 Commission approval of: a residential heat pump, central air conditioner and  
16 water heater DSM program; a residential new construction EE program; and a  
17 commercial, industrial and governmental new and retrofit EE program. PEC has  
18 four more DSM and EE programs awaiting North Carolina Utilities Commission  
19 approval. These programs are not all of the programs PEC intends to offer.  
20 Rather, PEC plans to continue to develop additional programs that will be added  
21 to PEC's portfolio of programs over the coming months and years, including a  
22 low income weatherization program, an appliance program, and a residential  
23 lighting program.



1           PEC intends to offer a comprehensive and diverse portfolio of cost-  
2           effective DSM/EE programs as is evident by the initial set of programs filed for  
3           approval in North Carolina. In fact, the initial set of programs filed in North  
4           Carolina is completely consistent with the intended market sector and relative  
5           targeted measures as outlined by Mr. Henderson in his testimony: Existing  
6           Residential Sector, New Construction Residential Sector, New Commercial  
7           Construction, and Existing Commercial Buildings. Additionally, Mr. Henderson  
8           emphasizes the importance of developing the network of private contractors and  
9           energy service providers that will be performing the work. PEC agrees with this  
10          recommendation. PEC's programs will not be successful without investing in the  
11          development of these delivery channels, which also notably serve as huge  
12          market channels. To this end, PEC has made plans to incorporate ongoing  
13          training and education specific to each program delivery channel including  
14          architects, engineering firms, builders, trade allies, and contractors as well as  
15          many of the professional organizations which represent these groups. Taking a  
16          whole-systems approach is needed to ensure the successful launch of PEC  
17          programs, and therefore PEC is committed to engaging the relevant participants  
18          for each program.

19               For example, PEC's Home Advantage Program (residential new  
20               construction) focuses on the market transformation of more efficient residential  
21               building construction by providing incentives to builders who commit to the  
22               Energy Star platform and upgrade their HVAC equipment. Currently, this market  
23               is largely untapped in South Carolina and lacks adequate infrastructure, including



1 qualified Home Energy Rating System (“HERS”) raters, trained builders and  
2 informed realtors that are fundamental to successful program participation. To  
3 address this need, PEC is investing in program resources to help identify and  
4 support the training of individuals in its SC service territory that can serve as new  
5 HERS raters. PEC also plans to offer classes in SC, including builder and  
6 training seminars, that will provide a sound understanding of Energy Star  
7 construction and marketing; thereby growing the number of qualified energy  
8 professionals needed to successfully implement the program.

9 It makes no difference whether programs are rolled out individually as they  
10 are completed or rolled out as a total portfolio once all of them are complete. The  
11 same programs will ultimately be offered. However, by rolling them out  
12 individually or two or three at a time, as PEC has done and intends to do, they  
13 can be modified and customized based upon PEC’s experience with previously  
14 implemented programs and its changing resource needs.

15 **Q. PLEASE EXPLAIN WHY PEC HAS CHOSEN TO FIRST OFFER THE DSM/EE**  
16 **PROGRAMS YOU JUST DESCRIBED.**

17 **A.** PEC “best-practice” starter portfolio begins with a core set of programs targeting  
18 broad market segments with straightforward, measure-based incentives. As  
19 experience is gained, more targeted and complex programs can be added. PEC  
20 has selected an initial set of programs and measures that help balance the  
21 resource planning needs, performance risks, regulatory interests, costs, and  
22 customer satisfaction objectives specific to its customer base. The initial  
23 programs incorporate design and concepts that have a proven track record of

1 providing benefits in other regulatory jurisdictions around the country. The  
2 program designs adopted by PEC thus far were developed with the assistance of  
3 consulting firms and professionals that have extensive roles and experience  
4 providing similar services to many of the utilities cited by Mr. Henderson. As an  
5 example, PEC's proposed comprehensive Commercial, Industrial, and  
6 Governmental Energy Efficiency ("CIG EE") Program was designed and will be  
7 implemented with the assistance of the same professional consultant used to  
8 design and implement a comparable program at Arizona Public Service ("APS").  
9 A comparison of the CIG EE program proposed by PEC with that of APS reveals  
10 strong similarities. Mr. Henderson specifically cites APS as a utility that  
11 demonstrated its ability to achieve quick, large impacts even though its energy  
12 efficiency endeavors were relatively new. Thus, PEC anticipates similarly quick,  
13 large positive impacts specific to the climate, local economy, and market  
14 demographics of its South Carolina service territory.

15 All of the programs PEC has proposed thus far pass the relevant cost  
16 benefit tests and result in significant reductions in energy ("kWhs") and demand  
17 ("kW"). Whether a program could or should include additional measures or  
18 have different levels of incentives can be debated forever. The bundle of  
19 measures constituting a program can always be revised by adding or deleting  
20 measures or modifying them in some way. In fact, as mentioned earlier, as the  
21 market changes and PEC's resource plan changes, these programs will be  
22 revised. However, debating whether a program should have one more measure  
23 or a different incentive, when the program as filed is cost effective and targets a

1 known market opportunity, may provide an opportunity for theoretical discussion  
2 but does little to advance the goal of rolling out DSM/EE programs on a timely  
3 basis.

4 Whether the programs offered by PEC represent the best mix of measures  
5 can best be determined after they have been subject to a measurement,  
6 verification and evaluation process, as well as an analysis of market acceptance.  
7 PEC is employing third-party industry experts to assist in developing its  
8 programs. Based upon this expert advice, comparisons with other successful  
9 programs, and PEC's own internal resources, PEC has developed an initial core  
10 set of programs that provides a robust set of cost-effective opportunities to every  
11 market sector, and PEC will continue to add to this core portfolio utilizing the  
12 same basic principles that leverage professional expertise and program  
13 benchmarking, combined with the experience that it gains through initial program  
14 offerings and market acceptance.

15 **Q. PLEASE ADDRESS MR. HENDERSON'S RECOMMENDATION THAT PEC'S**  
16 **PROGRAM MIX SHOULD BE HEAVILY WEIGHTED TOWARDS ENERGY**  
17 **EFFICIENCY PROGRAMS.**

18 A. S.C. Code Ann. §§ 58-37-10 et seq. require South Carolina's electric suppliers to  
19 develop 15-year integrated resource plans which must contain the utility's plan  
20 "for meeting the requirements shown in its forecast in an economic and reliable  
21 manner, including both demand-side and supply-side options." "Demand-side" is  
22 defined as including both demand-side resources and energy efficiency. Thus,  
23 the South Carolina General Assembly has determined that the State's electric



1 utilities are to consider and implement both DSM and EE programs as an integral  
2 part of their resource mixes. Both DSM and EE programs have a strong role to  
3 play in utilities' cost-effectively meeting their resource needs. As I mentioned  
4 earlier, the actual mix of DSM and EE resources a utility should offer depends on  
5 its resource needs, customer mix and rates.

6 **Q. IS IT HELPFUL TO COMPARE SOUTH CAROLINA TO STATES LIKE NEW**  
7 **YORK AND CALIFORNIA?**

8 A. No, such comparisons are of little value in evaluating DSM/EE programs for a  
9 variety of reasons. As I mentioned earlier, one of the most important reasons is  
10 the high rates in those states, which make DSM/EE programs much more cost  
11 effective for them as compared to South Carolina. They also have much more  
12 mature DSM/EE programs than PEC. As a result, one would expect their  
13 DSM/EE expenditures and their load and energy reductions to be significant. Of  
14 course this says nothing about the cost effectiveness of their programs, or the  
15 general rate impacts associated with these endeavors. Given the fact that they  
16 have been engaged in DSM/EE efforts for so long and still have rates twice as  
17 high as those in South Carolina, South Carolina should be very cautious in  
18 adopting their practices. Finally, as I mentioned earlier, the existence of and the  
19 ability of large customers to opt-out of utility DSM/EE programs impacts the  
20 results a utility can reasonably expect to achieve. New York and California do not  
21 have such opt-out provisions.

22 **Q. PLEASE ADDRESS MR. HENDERSON'S RECOMMENDATION THAT THE**  
23 **COMMISSION CONDITION APPROVAL OF THE SETTLING PARTIES' COST**



**RECOVERY MECHANISM ON THE ESTABLISHMENT OF STAKEHOLDER  
AND ADVISORY GROUPS.**

A. The Settling Parties' proposed cost-recovery mechanism contemplates PEC's soliciting the input of all parties to its previous cost-recovery proceeding. No further process for input to PEC's resource plan or DSM/EE efforts is appropriate. PEC alone is responsible for providing reliable, low-cost electricity to its customers. It alone must defend the prudence, justness and reasonableness of its costs incurred in doing so. PEC's resource planning responsibilities cannot be turned into a committee process open to any person or entity that wishes to voice an opinion or focus on only one aspect of resource planning while ignoring the broad scope of responsibilities and objectives that prudent resource planning requires. This docket is a perfect example of why. All of the other parties to this proceeding have reached a settlement based upon a reasonable approach to offering new DSM and energy efficiency programs to PEC's South Carolina customers. But, Mr. Henderson and his clients don't think that is good enough, even as a start, because we are not following California and New York closely enough. A utility should always be open to others' ideas, and the process contemplated by the proposed mechanism provides the vehicle for such input. But a utility must be able to reject the ideas and proposals it finds unreasonable or inappropriate. Stakeholder and advisory groups connote decision only by consensus, which cannot be reconciled with the fact that the utility is solely responsible for keeping the lights on and rates affordable.

1 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

2 A. Yes.